Notes to the Basic Financial Statements

NOTE 1 – THE FINANCIAL REPORTING ENTITY

(a) Reporting Entity

The County of San Bernardino (the "County"), which was established by an act of the State Legislature on April 26, 1853, is a legal subdivision of the State of California charged with governmental powers. The County's powers are exercised through a five-member Board of Supervisors (the "Board") which, as the governing body of the County, is responsible for the legislative and executive control of the County. As required by generally accepted accounting principles, these basic financial statements present the primary government and its component units, which are, in substance, although legally separate entities, part of the County's operations and so data from these units are blended with the data of the primary government. Each blended component unit has a June 30 year-end.

The County's Comprehensive Annual Financial Report does not include the financial statements of the San Bernardino County Employee's Retirement Association (SBCERA). The Retirement Board controls the Retirement Association acting as fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes a separate Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and was determined not to be a component unit according to the criteria set forth in Governmental Accounting Standards Board, the Financial Reporting Entity (GASB 39).

Additional detailed financial information for each of these entities, including the blended component units below, can be obtained from the Auditor/Controller's Office at 222 W. Hospitality Lane, San Bernardino, CA 92415-0018.

(b) Blended Component Units

Using the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 39 - The Financial Reporting Entity, management determined that the following component units should be blended:

- Fire Protection Districts
- Flood Control District
- Park and Recreation Districts
- Crestline Sanitation District
- County Service Areas
- Various joint powers authorities (JPAs)
- The Inland Empire Facilities Corporation, created for the benefit of the County
- Inland Empire Solid Waste Authority
- San Bernardino County Financing Authority
- Crestline Financing Authority
- Redevelopment Agency of the County of San Bernardino

The County is financially accountable for each of the above component units through the County's elected officials and descriptions of these component units are contained in subsequent sections of this Comprehensive Annual Financial Report. Acting as the governing body of the component units, the Board of Supervisors demonstrates financial accountability. Because of their relationship with the County and the nature of their operations, each of the component units is, in substance, part of the County's operations and, accordingly, the activities of these component units are combined (blended) with the activities of the County for purposes of reporting in the accompanying basic financial statements.

(c) Discretely Presented Component Unit

FIRST 5 of San Bernardino County, formerly known as the Children and Families First Commission, was formed in 1998 under the California Health and Safety Code - Section 10110, Chapter 29 of Title 1 of the San Bernardino County Code, and the California Children and Families First Act of 1998. The Commission was created for the purpose of promoting, supporting and improving the early development of children from the prenatal stage to five years of age and is funded by allocations of California Proposition 10 Tobacco Tax. Their board consists of seven members, three of who are officers of the County, while the remaining four are appointed by the San Bernardino County Board of Supervisors. The FIRST 5 is a discretely presented component unit as its governing body is not substantially the same as that of the County and the FIRST 5 does not provide services entirely or almost entirely to the County but rather to the citizenry.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

In accordance with Governmental Accounting Standards Board Statement (GASB) No. 34 (GASB 34), the basic financial statements consist of the following:

- Government-wide financial statements,
- Fund financial statements, and
- Notes to the basic financial statements.

Government – Wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the primary government (the County) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the County. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the County and for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipient for goods or services offered by the program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the County's funds, including fiduciary funds and blended component units. Separate statements for each fund category – governmental, proprietary and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are separately aggregated and reported as nonmajor funds.

The County reports only one major governmental fund:

- *The General Fund* is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the County that are not accounted for through other funds. For the County, the General Fund includes such activities as General Government, Public Protection, Public Ways and Facilities, Health and Sanitation, Public Assistance, Education, and Recreation and Cultural Services.

The County reports the following major enterprise funds.

- *The County Medical Center Fund* accounts for inpatient and outpatient care including emergency room services and indigent care to County residents. The fund is financed primarily by patient care services.

- *The Waste Systems Division Fund* accounts for refuse disposal services provided to the public by twenty landfill sites. The waste disposal program is financed by funds derived from gate fees at the San Bernardino Valley landfill sites and from land use fees charged to property owners in both the mountain and desert areas.

The County reports the following additional fund types in their fund financial statements:

- *Internal Service Funds* Account for printing services, records management, central mail, telephone services, computer operations, vehicle services, risk management, and flood control equipment operations that provide services to other departments or agencies of the County on a cost reimbursement basis

- The *Investment Trust Fund* accounts for the pooled investments of numerous self-governed school and special districts for which cash and investments are held by the County Treasurer. The financial reporting for these governmental entities, which are independent of the County, is limited to the total amount of cash and investments and other assets, and the related fiduciary responsibility of the County for disbursements of these assets. Activities of the school districts and special districts are administered by their own separate elected boards and are independent of the County Board of Supervisors. The County Auditor/Controller makes disbursements upon the request of the responsible school and self-governed district officers. The County Board of Supervisors has no effective authority to govern, manage, approve budgets, assume financial responsibility, establish revenue limits, nor to appropriate surplus funds available in these entities. Therefore, these entities are fiscally independent of the County.

- The *Agency Funds* account for assets held by the County as an agent for various local governments.

(b) Basis of Accounting

The government-wide, proprietary, and investment/agency trust fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Nonexchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes and sales taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Revenues from grants and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Property and sales taxes, interest, certain state and federal grants and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period, and recognized as revenue. The County considers items available if received within 9 months of year end, for voluntary non-exchange transactions such as federal and state grants. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when the payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

Proprietary funds are used to account for business-type activities, which are financed mainly by fees and charges to users of the services provided by the funds' operations. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the County has elected not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

(c) Capital Assets And Long-Term Debt

GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the government-wide Statement of Net Assets.

(d) Due From Other Governments

At June 30, 2005, the General Fund accrued $199,170 of receivables from other governments, of which $171,702 was due from the State of California. Of the amount owed by the State, $26,658 was for Health Care Services, $48,443 was for Public Social Services, $83,957 was for motor vehicle license fees and sales tax monies, and the remaining $12,644 was for other services. Amounts owed from cities for booking fees and other services were $6,558. The remaining amount of $20,910 was due from the federal government and other governmental agencies.

(e) Taxes and Accounts Receivable

The $22,572 taxes receivable balance in the Governmental Activities column of the statement of net assets at June 30, 2005 is net of an allowance of doubtful accounts of $894. The $30,212 accounts receivable balance of the Medical Center Enterprise Fund at June 30, 2005 is net of an allowance for doubtful accounts of $184,610.

The $443 accounts receivable balance of the Fire Protection Districts – Ambulance Fund at June 30, 2005 is net of an allowance for doubtful accounts of $2,106. The $285 accounts receivable balance of the Crestline Sanitation District Fund at June 30, 2005 is reported at gross - without an allowance for doubtful accounts. These funds are reflected as part of the enterprise funds on the statement of net assets.

(Amounts in thousands)

(f) Deferred Revenue

In the fund financial statements, governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At June 30, 2005, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows.

	Unavailable	Unearned	Total
Governmental Funds			
General Fund			
Developer Deposits	$ -	$ 9,586	$ 9,586
Property Tax Receivable	8,525		8,525
Due from governmental agencies	-	6,218	6,218
Nonmajor funds			
Property Tax Receivable	4,733	-	4,733
Due from governmental agencies	-	73	73
Total Governmental Activities	$ 13,258	$ 15,877	$ 29,135

(g) Cash and Cash Equivalents

For purposes of the statement of cash flows, the County considers all pooled investments and other highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

(h) Investments

The County's investments are governed by the California Government Code and the County's Investment Policy. These approved investments include U.S. Government Treasury and Agency securities, bankers' acceptances, commercial paper, medium term notes, mutual funds, repurchase agreements and reverse repurchase agreements as authorized by the Government Code Sections 53601, 53635 and 53638 which limit the investments to certain maximum percentages by investment type in the pool.

The County's investments and securities are reported at fair value based upon quoted market prices. Securities having no sales are valued based upon last reported bid prices. The County intends to either hold investments until maturity or until market values equal or exceed cost. The value of the various investments will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions.

(i) Inventories and Prepaid Items

Inventories, which consist principally of materials and supplies held for consumption, are valued at cost (first-in, first-out basis) for governmental fund types and at an amount which approximates the lower of average cost or market for proprietary fund types. Inventories of the governmental activities are accounted for as expenditures when the inventory items are consumed. In the fund financial statements, reported inventories are offset with a corresponding reservation of fund balance because these amounts are not available for appropriation and expenditure.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and the fund financial statements.

(j) Property Taxes

The County levies, collects and apportions property taxes for all taxing jurisdictions within the County, including school and special districts. Property taxes are determined by applying approved rates to the assessed values of properties. The total 2004-05 gross assessed valuation of the County of San Bernardino was $ 87,270,911 (after deducting $ 27,094,646 for the redevelopment tax allocation increment).

Article XIIIA of the State of California Constitution limits the property tax levy to support general government services of the various taxing jurisdictions to $1.00 per $100.00 of assessed value. Taxes levied to service voter-approved debt prior to June 30, 1978 are excluded from this limitation.

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

The term “unsecured” refers to taxes on personal property other than land and buildings. These taxes are secured by liens on the property being taxed. In the fund financial statements, property tax revenues are recognized in the fiscal year for which they are levied, provided they are due and collected within sixty days after fiscal year-end. Property taxes are recorded as deferred revenue when not received within sixty days after fiscal year-end. In the government – wide financial statements, property taxes are recorded as revenue when levied regardless of when the cash is collected.

(k) Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (roadways, bridges, roadway signage, guardrails, drainage systems, traffic lights, dams, and flood control), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than $5,000.00 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant, equipment, and infrastructure of the primary government is depreciated using the straight line method over the following estimated useful lives:

Infrastructure	10 to 100 years
Structure and improvements	45 years
Equipment	5 to 15 years

The County has six networks of infrastructure assets – roads, runways/taxiways, water/sewer, lighting, drainage, and flood control.

(l) Employee Compensated Absences

Liabilities for vacation, holiday benefits, sick pay and compensatory time are accrued when incurred in the government-wide and proprietary fund financial statements. In the event of retirement or termination, an employee is paid 100% of accumulated vacation pay, and those with ten or more years of continuous services are paid 30% to 50% of their accumulated sick leave. Up to two times the annual vacation accrual rate may be carried over from one year to the next. In accordance with GASB Interpretation No. 6, a liability for these amounts is reported in the governmental funds financial statements only if they have matured, for example, as a result of employee resignations and retirements prior to year-end and are paid by the County subsequent to year-end.

(m) Interfund Transactions

Interfund transactions are reflected as loans, services-provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either “Due to/from other funds” (i.e., the current portion of interfund loans) or “Interfund receivables/payables”(i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances”. Interfund receivables, as reported in the fund financial statements, are offset by the fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

(n) Use of Estimates

The presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 – AUTOMATED WELFARE SYSTEM

To achieve a statewide automated welfare system, California's 1995 State Budget Act facilitated the formation of up to four county consortia to design an automated welfare system. The Statewide Automated Welfare System Consortium-IV (SAWS C-IV), the fourth consortium to be established, includes Merced, Riverside, San Bernardino and Stanislaus counties. The SAWS C-IV system provides online, customer-based, fully integrated and automated system to assist in the efforts of programs including Temporary Assistance for Needy Families (TANF), Medi-Cal, Food Stamps, and employment programs. The system is designed to provide the County with the ability to verify public assistance eligibility, compute benefits, provide timely distribution of benefits, and reduce administrative complexity, collect data and management information. The County of San Bernardino implemented the SAWS C-IV system in August 2004 to assist with the processing of public assistance payments.

(Amounts in thousands)

NOTE 4 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Amounts reported for governmental activities in the statement of net assets are different from those reported for governmental funds in the balance sheet. The following provides a reconciliation of those differences.

	Total Governmental Funds (Page 42)	Long-Term Assets and Liabilities (1)	Internal Service Funds (2) (Page 45)	Eliminations	Statement of Net Assets Totals (Page 38)
ASSETS					
CASH AND CASH EQUIVALENTS	$ 627,057	$ -	$ 98,175	$ -	$ 725,232
INVESTMENTS	11,229	-	-	-	11,229
ACCOUNTS RECEIVABLE - NET	2,857	(1)	75	-	2,931
TAXES RECEIVABLE	27,194	(4,622)	-	-	22,572
INTEREST RECEIVABLE	2,594	-	-	-	2,594
LOAN RECEIVABLE	1,817	5,283	-	-	7,100
OTHER RECEIVABLES	2,684	-	-	-	2,684
DUE FROM OTHER FUNDS	54,954	-	365	(55,319)	-
DUE FROM OTHER GOVERNMENTS	222,224	-	618	15,689	238,531
INTERNAL BALANCES	-	-	-	15,599	15,599
INVENTORIES	509	-	1,868	-	2,377
PREPAID ITEMS	30	-	1,574	-	1,604
DEFERRED CHARGES	-	6,898	-	-	6,898
INTERFUND RECEIVABLE	400	-	1,000	(1,400)	-
RESTRICTED CASH AND INVESTMENTS	173	-	-	-	173
PREPAID PENSION ASSET	-	844,882	-	-	844,882
LAND	-	61,780	-	-	61,780
STRUCTURES, IMPROVEMENTS, AND INFRASTRUCTURE	-	1,655,736	7,049	-	1,662,785
EQUIPMENT	-	150,175	51,805	-	201,980
CAPITALIZED SOFTWARE	-	2,708	-	-	2,708
ACCUMULATED DEPRECIATION AND AMORTIZATION	-	(782,100)	(39,867)	-	(821,967)
CONSTRUCTION IN PROGRESS	-	79,295	45	-	79,340
TOTAL ASSETS	$ 953,722	$ 2,020,034	$ 122,707	$ (25,431)	$ 3,071,032
LIABILITIES					
ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES	$ 36,615	$ -	$ 3,969	$ -	$ 40,584
SALARIES AND BENEFITS PAYABLE	48,886	-	1,813	-	50,699
DUE TO OTHER FUNDS	23,077	-	705	(23,782)	-
DUE TO OTHER GOVERNMENTS	24,275	-	-	-	24,275
INTEREST PAYABLE	-	12,864	-	-	12,864
DEFERRED REVENUE	29,135	(12,363)	300	-	17,072
INTERFUND PAYABLE	650	-	1,000	(1,650)	-
COMPENSATED ABSENCES PAYABLE	-	101,003	3,519	-	104,522
COP BONDS AND NOTES PAYABLE	-	1,473,360	-	-	1,473,360
CAPITAL LEASE OBLIGATIONS	-	4,246	211	-	4,457
OTHER LONG TERM LIABILITIES	809	29,091	-	-	29,900
ESTIMATED LIABILITY FOR LITIGATION AND SELF-INSURED CLAIMS	-		- 115,714	-	115,714
DEFERRED AMOUNT ON REFUNDING	-	(7,330)	-	-	(7,330)
PREMIUM	-	3,919	-	-	3,919
DISCOUNT	-	(333,297)	-	-	(333,297)
TOTAL LIABILITIES	163,447	1,271,493	127,231	(25,432)	1,536,739
FUND BALANCE/NET ASSETS	790,275	748,541	(4,524)	(1)	1,534,293
TOTAL LIABILITIES & FUND BALANCE/NET ASSETS	$ 953,722	$ 2,020,034	$ 122,707	$ (25,433)	$ 3,071,032

(Amounts in thousands)

(1)	Capital assets used in governmental activities that are not financial resources and, therefore, are not reported in the funds.		
	Land	61,780	
	Structures, Improvements, and Infrastructure	$ 1,655,736	
	Equipment	150,175	
	Capitalized software	2,708	
	Accumulated Depreciation and Amortization	(782,100)	
	Construction in Progress	79,295	
			$ 1,167,594
(1)	Net Pension Obligation Bond		848,853
(1)	Other long-term assets that are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		15,951
(1)	Interest Payable		(12,864)
(1)	Long-term liabilities, including bonds payable, that are not due and payable in the current period and therefore are not reported in the funds.		
	Compensated Absences Payable	(101,003)	
	COP Bonds and Notes Payable	(1,473,360)	
	Capital Lease Obligations	(4,246)	
	Other Long Term Liabilities	(29,091)	
	Deferred Amount on Refunding	7,330	
	Premium	(3,919)	
	Discount	333,297	
			(1,270,992)
			$ 748,541
(2)	Internal service funds that are used by management to charge the costs of general services, telephone services, computer operations, vehicle services, risk management, and flood control equipment to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.		$ (4,524)

NOTE 5 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

(a) Budgetary Information

In accordance with the provisions of Section 29000 – 29143 of the Government Code of the State of California, commonly known as the County Budget Act, the County prepares and adopts a budget on or before August 30, for each fiscal year. Budgets are adopted for the General Fund, certain Special Revenue Funds, and certain Capital Projects Funds. Budgets are prepared on the modified accrual basis of accounting, except that current year encumbrances are budgeted as expenditures.

Annual budgets are not adopted for the following funds: Pension Obligation Bonds Debt Service, Joint Powers Authorities Special Revenue, Debt Service and Capital Projects.

The legal level of budgetary control is maintained at the object level and sub-object level for capital assets within departments. However, presentation of the basic financial statements at the legal level of control is not feasible due to excessive length. Because of the large volume of detail, the budget and the actual statements have been aggregated by function. The County does prepare a separate final budget document at the object and sub-object level that is made available to the public by the office of the Auditor/Controller.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Supplemental appropriations necessary and normally financed by unanticipated revenues during the year must also be approved by the Board. From time to time during the year, supplemental appropriations were necessary and approved by the Board. Amendments or transfers of appropriations between object levels within the same department may be approved by the Board or the County Administrative Office. Transfers at the sub-object level or cost center level may be done at the discretion of the department head. Any deficiency of the budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided in the County Budget Act.

(b) Excess of Expenditures Over Appropriations

For fiscal year 2004-05, there were no instances in which expenditures exceed appropriations.

(c) Net Deficits of Individual Funds

The Medical Center expects to eliminate its net deficit of $ 19,519 in future years through rate increases and/or possible contributions from the General Fund.

The Risk Management Division incurred a net deficit of $ 46,653 is expected to be eliminated over the next five years through rate increases.

(d) Reconciliation of Budgetary Basis to GAAP Basis

The annual County Budget is prepared, approved and adopted in accordance with provisions of the County Budget Act. In preparing the budget, the County utilizes a basis of accounting which is different from the basis prescribed by generally accepted accounting principles (“GAAP”). The accompanying General Fund Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual on a Budgetary Basis presents comparisons of the legally adopted budget and the actual data on a budgetary basis. The following adjustments are necessary to provide a meaningful comparison of the actual results of operations with the budget:

(Amounts in thousands)

	General Fund
Fund balance - budgetary basis	$ 415,715
Outstanding encumbrances for budgeted funds	33,021
Fund balance - GAAP basis	$ 448,736

Net Assets/Fund Balances

The government-wide and business-type activities fund financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

- *Invested In Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets as well as any premium or discount paid on debt reduce the balance in this category.

- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulation of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Examples of restricted net assets include federal and state grants that are restricted by grant agreements for specific purposes and restricted cash set aside for debt service payments. At June 30, 2005, the County reported restricted net assets of $465,540 restricted for the following purposes:

Restricted for:	Amount
Legally segregated special revenue funds for grants and other purposes	$ 251,152
Debt Service	30,719
Capital project funds	59,186
Permanent funds	482
State Realignment Funds	124,001
	$ 465,540

- *Unrestricted Net Assets* – This category represents net assets of the County, not restricted for any project or other purpose.

(Amounts in thousands)

In the fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the Board and management and can be increased, reduced or eliminated by similar actions.

Fund balances which are not available for appropriation at June 30, 2005 are reserved or designated for the following purposes:

Reserved Fund Balance

	Governmental Activities		
	General Fund	Nonmajor Funds	Total
Encumbrances	$ 33,021	$ 51,536	$ 84,557
Prepaid Items	7	23	30
Noncurrent Interfund Receivables	-	400	1,150
Debt Service	-	30,719	30,719
Inventories	295	214	509
Loans Receivable	1,817	-	1,817
Teeter Plan	9,827	-	9,827
Total	$ 44,967	$ 82,892	$ 127,859

Designated Fund Balance

	General Fund
General Purpose	$ 37,214
Medical Center Debt Service	32,075
Justice Facilites	1,305
West Valley Maximum Security	1,493
Future Retirement Rate	7,000
Teeter Plan	9,433
Restitution	1,614
Equity Pool	3,514
Insurance	3,000
Bark Beetle Reserve	1,665
Hall of Paleontology	1,703
Electronic Voter System	500
Capital Projects	4,000
Business Process Improvement	3,000
Transportation	3,500
SWBPI - Law & Justice	1,884
Total Designated Fund Balance	$ 112,900

NOTE 6 – CASH AND INVESTMENTS

Cash and investments include the cash balances of substantially all funds which are pooled (the "pool") and invested by the County Treasurer for the purpose of increasing interest earnings through investment activities. The pool is not registered as an investment company with the Securities and Exchange Commission (SEC) nor is it an SEC Rule 2a7 – like pool. The pool does not issue a separate report. Included also are cash and investments held by certain joint powers authorities and cash held by various trustee financial institutions in accordance with the California Government Code.

State law now requires that all operating monies of the County, school districts, and certain special districts be held by the County Treasurer. The net asset value associated with legally mandated participants in the asset pool was $2,819,150 at June 30, 2005.

As of June 30, 2005, the fair value of the County pool was $2.87 billion. Approximately 10% of the County pool is attributable to the County General Fund, with the remainder of the balance comprised of other County funds, school districts and special districts. Additionally, as of June 30, 2005, $53,209 of the amounts deposited in the County pool was attributable to depositors who are not required to, but choose to, invest in the County pool.

INVESTMENTS AUTHORIZED BY DEBT AGREEMENT

Investment of debt proceeds held by bond trustees are governed by provisions of the trust agreements, created in connection with the issuance of debt (see Note 11) rather than the general provisions of the California Government Code. Certificates of Participation and Revenue Bond indentures specify the types of securities in which proceeds may be invested as well as any related insurance, collateral, or minimum credit rating requirements. Although requirements may vary between debt issues, money market funds are all required to be investment grade. Guaranteed investment contracts are required to be acceptable to the municipal bond insurer. The fair value of investments is based on the valuation provided by trustee banks.

INVESTMENT CREDIT RISK

Investment credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. GASB Statement No. 40 requires the disclosure of credit quality ratings for investments in debt securities as well as investments in external investment pools, money market funds, and other pooled investments of fixed income securities.

California Law and San Bernardino County Treasury Pool Investment Policy (where more restrictive) place limitations on the purchase of investments in the County Pool. Purchases of commercial paper and negotiable certificates of deposit are restricted to the top two ratings issued by a minimum of two of three nationally recognized statistical rating organizations (NRSRO's). For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P-1 (Moody's), or F-1 (Fitch) while an issuer of long-term corporate debt must have a minimum letter rating of "AA". Federal Agency notes and bonds, municipal notes and bonds, and money market mutual funds must have a minimum letter rating of "AAA". Limits are also placed on the maximum percentage investment by sector and by individual issuer (see schedule). As of June 30, 2005, all investments held by the County Pool were within policy limits.

(Amounts in thousands)

CONCENTRATION OF CREDIT RISK

An increased risk of loss occurs as more investments are acquired from one issuer (i.e. lack of diversification). This results in a *concentration of credit risk.*

GASB Statement No. 40 requires disclosure of investments by amount and issuer that represent five-percent or more of total investments held. This requirement excludes investments issued or explicitly guaranteed by the United States Government, investments in mutual funds, external investment pools, and other pooled investments. As of June 30, 2005, the following issuers represented more than five-percent of the County Pool balance:

Issuer	Fair Value	% of Portfolio
FNMA	$ 683,344	23.35%
FHLMC	$ 546,837	18.69%
FHLB	$ 546,967	18.69%

INTEREST RATE RISK

Interest rate risk exists when there is a possibility that changes in interest rates could adversely effect an investment's fair value. Generally, the longer the maturity of an investment, the greater the interest rate risk associated with that investment.

GASB Statement No. 40 requires that *interest rate risk* be disclosed using a minimum of one of five approved methods which are: *segmented time distribution, specific identification, weighted average maturity, duration, and simulated model.*

The County manages its exposure to interest rate risk by carefully matching cash flows and maturing positions to meet expenditures, limiting 40% of the County Pool to maturities of one year or less, and by maintaining an overall *effective duration* of 1.5 years or less. *Duration* is a measure of a fixed income's cash flow using present values, weighted for cash flows as a percentage of the investments full price. *Effective duration* makes assumptions regarding the most likely timing and amounts of variable cash flows arising from such investments as callable bonds.

California Law and where more restrictive, the San Bernardino County Pool Investment Policy, place limitations on the maximum maturity of investments to be purchased by sector (see schedule). As of June 30, 2005, all investments held by the County Pool were within policy limits.

(Amounts in thousands)

Security Type	Fair Value	Maturity Range (Days)	Maturity Limits	Average Maturity	Effective Duration
Certificates of Deposit	$ 184,845	6 - 286	365 days	103	0.28
Commercial Paper	$ 547,894	1 - 175	270 days	36	0.1
Federal Agencies	$ 1,890,396	15 - 929	5 years	346	0.89
Money Market Funds	$ 24,000	1	Imm. Liq.	1	0.003
Municipal Debt	$ 11,777	32	5 years	32	0.08
Repurchase Agreements	$ 100,001	1	180 days	1	0.003
U.S. Treasuries	$ 113,446	684 - 1203	5 years	835	2.15
Total Securities	$ 2,872,359			274.6	0.706

CUSTODIAL CREDIT RISK

Custodial Credit Risk for Deposits exists when, in the event of a depository financial institution failure, a government may be unable to recover deposits, or recover collateral securities that are in the possession of an outside party.

GASB Statement No. 40 requires the disclosure of deposits into a financial institution that are not covered by FDIC depository insurance and are uncollateralized.

California Law requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure County deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2005, the carrying amount of the County's deposits was $5,042 and the corresponding bank balance was $62,709. The difference of $57,667 was primarily due to outstanding warrants, wires and deposits in transit. Of the bank balance, $606 was insured by the FDIC depository insurance and $62,103 was uncollateralized and not insured by FDIC depository insurance.

Custodial Credit Risk for Investments exists when, in the event of a failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

In order to limit *Custodial Credit Risk for Investments*, San Bernardino County Pool Investment Policy requires that all investments and investment collateral be transacted on a delivery versus payment basis with a third-party custodian and registered in the County's name. All counterparties to repurchase agreements must sign a PSA Master Repurchase Agreement and/or Tri-Party Repurchase Agreement before engaging in repurchase agreement transactions.

(Amounts in thousands)

A summary of the investments held by the County Treasurer is as follows:

Investment Type	Cost	Fair Value	S&P Rating	Moody's Rating	Fitch Rating	Maximun Allowed % of Portfolio	Individual Issuer Limitations	% of Pool 06/30/05
U.S. Treasury Securities	$ 114,418	$ 113,446	AAA	AAA	AAA	100%	None	3.88%
U.S. Government Agencies	1,332,192	1,318,819	AAA	AAA	AAA	75%	None	45.07%
U.S. Agency Discount Notes	565,807	571,577	A1+	P1	F1+	75%	None	19.53%
Negotiable Certificates of Deposit	165,006	164,872	A1+	P1	F1+	30%	$100MM	5.63%
Negotiable Certificates of Deposit	20,000	19,973	A1	P1	F1	30%	$100MM	0.68%
Commercial Paper	526,087	527,907	A1+	P1	F1+	40%	10%/10%	18.04%
Commercial Paper	19,984	19,987	A1	P1	F1	40%	10%/10%	0.68%
Municipal Bonds	11,815	11,777	AAA	AAA	AAA	10%	Treasurer Appr'l	0.40%
Money Market Mutual Funds	24,000	24,000	AAA	AAA	AAA	15%	10%	0.82%
Repurchase Agreements	100,000	100,001	A1	P1	F1+	40%	None	3.42%
Total Treasurer's Pooled Investments	$ 2,879,309	$ 2,872,359						
Investments Controlled by Fiscal Agents:								
Mutual Funds	12,484	12,484						
Municipal Bonds	4,928	4,928						
Guaranteed Investment Contracts	35,771	35,771						
U.S. Treasury Securities	76,533	76,533						
U.S. Agency Discount Notes	6,603	6,603						
Total Investments Controlled by Fiscal Agents	$ 136,319	$ 136,319						
Total Investments	**$ 3,015,628**	**$ 3,008,678**						
Cash in Banks:								
Non-Interest Bearing Deposits		$ 5,042						
Total Cash and Investments		**$ 3,013,720**						

As of June 30, 2005, Cash and Investments are classified in the accompanying financial statements as follows:

	Total Governmental Activities	Total Business-type Activities	Total Fiduciary Funds	Discretely Presented Component Unit	Total
Cash and Investments	$ 736,461	$ 79,767	$ 1,950,473	$ 77,686	$ 2,844,387
Restricted Cash and Investments	173	169,160	-	-	169,333
Total Cash and Investments	**$ 736,634**	**$ 248,927**	**$ 1,950,473**	**$ 77,686**	**$ 3,013,720**

(Amounts in thousands)

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's investment pool as of June 30, 2005:

Statement of Net Assets		
Equity of internal pool participants	$	1,283,207
Equity of external pool participants:		
Voluntary		53,209
Involuntary		1,535,943
Total Net Assets held for pool participants	$	2,872,359

Statement of Changes in Net Assets		
Net Assets at July 1, 2004	$	2,898,898
Net change in investments by pool participants		(26,539)
Net Assets at June 30, 2005	$	2,872,359

(Amounts in thousands)

NOTE 7 – INTERFUND TRANSACTIONS

Due to/from other funds at June 30, 2005 are as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	$ 12,418
	Medical Center	10,823
	Waste Systems Division	11,449
	Nonmajor Enterprise Funds	67
	Internal Service Funds	53
	Investment Funds	462
	Agency Funds	4,021
		39,293
Nonmajor Governmental Funds	General Fund	4,487
	Nonmajor Governmental Funds	2,814
	Waste Systems Division	17
	Nonmajor Enterprise Funds	910
	Internal Service Funds	652
	Investment Funds	429
	Agency Funds	6,353
		15,662
Medical Center	General Fund	1,553
	Agency Funds	631
		2,184
Waste Systems Division	Nonmajor Governmental Funds	147
	Agency Funds	798
		945
Nonmajor Enterprise Funds	Agency Funds	409
		409
Internal Service Funds	General Fund	118
	Nonmajor Governmental Funds	28
	Medical Center	20
	Agency Funds	199
		365
Investment Funds	Agency Funds	11,446
		11,446
Agency Funds	General Fund	1,512
	Agency Funds	23
		1,535
Total		$ 71,839

Interfund Receivable/Payable at June 30, 2005 are as follows:

Receivable Fund	Payable Fund	Amount
Nonmajor Governmental Funds	Nonmajor Governmental Funds	400
		400
Agency Funds	Nonmajor Governmental Funds	250
		250
Internal Service Funds	Internal Service Funds	1,000
		1,000
Total		$ 1,650

(Amounts in thousands)

Transfers To/From Other Funds for the year ended June 30, 2005 are as follows:

Transfers are indicative of funding for capital projects, lease payments or debt service, subsidies of various County operations and re-allocations of special revenues. The following schedule briefly summarizes the County's transfer activity:

Transfer From	Transfer To	Amount
General Fund	Medical Center	$ 40,637
	Internal Service Funds	466
		41,103
Internal Service Funds	Nonmajor Governmental Funds	1,057
		1,057
Waste Systems Division	General Fund	5,823
	Nonmajor Governmental Funds	124
		5,947
Medical Center	Nonmajor Governmental Funds	4,729
		4,729
Nonmajor Enterprise Funds	General Fund	30
	Nonmajor Governmental Funds	3,714
		3,744
Total		$ 56,580

(b) Between Funds within the Governmental or Business-type Activities (1)

General Fund	Nonmajor Governmental Funds	105,279
		105,279
Nonmajor Governmental Funds	General Fund	36,667
	Nonmajor Governmental Funds	14,631
	Nonmajor Enterprise Funds	859
		52,157
Internal Service Funds	Internal Service Funds	7
		7
Total		$ 157,443

(1) These transfers were eliminated in the consolidation, by column, for the Governmental and Business Type Activities.

Amounts transferred out of the General Fund to the Medical Center are the results of year-end budgeted transfer, and the annual transfer from health care cost to the Medical Center.

Amounts transferred from the General Fund to the Nonmajor Governmental Funds are the results of the joint power authorities' debt service payments and the pension obligation bond debt service payments.

NOTE 8 – RESTRICTED CASH AND INVESTMENTS

Cash and cash equivalents that are restricted by legal or contractual requirements at June 30, 2005 are comprised of the following:

Special Revenue Funds

Flood Control District:

The Flood Control District has set aside a total of $173. $60 is to be used for the construction of the Etiwanda/San Sevaine Project. $113 is for use in case of emergencies or disasters.

Enterprise Funds

Medical Center:

Restricted cash and cash equivalents of $61,817 represent funds set aside for debt service payments.

Waste System Division:

Restricted cash and cash equivalents of $107,343 represent funds set aside as specified by bond covenants and for a waste water treatment facility, groundwater detection, treatment and remediation, and for State mandated site closure and maintenance costs.

(Amounts in thousands)

NOTE 9 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

Primary Government

	Balance July 1, 2004	Additions	Decreases	Balance June 30,2005
Governmental Activities				
Capital assets, non-depreciable:				
Land	$ 48,501	$ 13,279	$ -	$ 61,780
Construction in progress	134,764	31,800	87,224	79,340
Total assets, non-depreciable	183,265	45,079	87,224	141,120
Capital Assets, depreciable:				
Improvements other than Buildings	119,526	8,978	20	128,484
Structures and Improvements	450,983	49,872	-	500,855
Equipment	197,780	21,226	17,026	201,980
Capitalized Software	-	2,708	-	2,708
Infrastructure	994,578	38,868	-	1,033,446
Total assets-depreciable	1,762,867	121,652	17,046	1,867,473
Less accumulated depreciation for :				
Improvements other than Buildings	57,368	5,107	5	62,470
Structures and Improvements	130,634	10,452	-	141,086
Equipment	128,228	21,975	14,457	135,746
Infrastructure	460,152	22,513		482,665
Total accumulated depreciation	776,382	60,047	14,462	821,967
Total capital assets, depreciable, net	986,485	61,605	2,584	1,045,506
Governmental activities capital assets, net	$ 1,169,750	$ 106,684	$ 89,808	$ 1,186,626
Business-type Activities				
Capital assets, non-depreciable:				
Land	$ 39,400	$ 105	$ -	$ 39,505
Construction in progress	11,587	13,688	4,420	20,855
Total assets, non-depreciable	50,987	13,793	4,420	60,360
Capital Assets, depreciable:				
Improvements other than Buildings	215,496	3,664	86	219,074
Structures and Improvements	508,061	955	251	508,765
Equipment	100,784	2,026	2,377	100,433
Total capital assets-depreciable	824,341	6,645	2,714	828,272
Less accumulated depreciation for :				
Improvements other than Buildings	121,770	5,703	150	127,323
Structures and Improvements	72,601	13,030	402	85,229
Equipment	72,501	6,382	1,614	77,269
Total accumulated depreciation	266,872	25,115	2,166	289,821
Total capital assets, depreciable, net	557,469	(18,470)	548	538,451
Business-type activities capital assets, net	$ 608,456	$ (4,677)	$ 4,968	$ 598,811

(Amounts in thousands)

Depreciation

Depreciation expense was charged to governmental functions as follows:

General Government	$	8,348
Public Protection		18,338
Public Ways and Facilities		28,003
Health and Sanitation		688
Public Assistance		1,730
Education		274
Recreation and Cultural Services		2,666
Total depreciation expense - governmental functions	$	60,047

Depreciation expense was charged to the business-type functions as follows:

Medical Center	$	18,370
Waste Systems Divison		3,709
Nonmajor Funds		3,036
Total depreciation expense - business type functions	$	25,115

Construction in Progress

Construction in Progress consists of the following projects	Governmental Activities	Business-Type Activities
Flood Control Projects	32,567	-
Other County Projects	46,773	20,855
Total	$ 79,340	$ 20,855

Discretely Presented Component Units

Activity for the FIRST 5 of San Bernardino for the year ended June 30, 2005, was as follows:

	Balance July 1, 2004	Additions	Decreases	Balance June 30, 2005
Capital assets, being depreciated:				
Furniture and Computer Equipment	$ 244	$ 5	$ -	$ 249
Less accumulated depreciation for:				
Furniture and Computer Equipment	58	54	-	112
District capital assets, net	$ 186	$ (49)	$ -	$ 137

NOTE 10 – SELF INSURANCE

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to $1 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to $25 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II. Workers' compensation claims are self-insured up to $2 million per occurrence and covered by CSAC EIA for up to $10 million for employer's liability and up to $50 million for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a $25 thousand deductible, and insured with CSAC EIA Property Program.

The County supplements its self-insurance for medical malpractice claims with CSAC EIA, which provides annual coverage on a claim made form basis with an SIR of $1 million for each claim. Maximum coverage under the policy is $11.5 million per claim with an additional $10 million in limits provided by the CSAC EIA General Liability II Program.

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, also with CSAC EIA with a $100,000 deductible, and excess limits up to $10 million per occurrence.

The activities related to such programs are accounted for in the Division except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The IBNR and IBNS liabilities stated on the Division's balance sheet are based upon the results of actuarial studies, and include amounts for allocated and unallocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 3.50%. It is the Division's practice to obtain actuarial studies on an annual basis.

The Division has a risk management investment program agreement with the Bank of New York to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. The Division's investment in the agreements totaled $47.3 million at June 30, 2005.

The total claims liability of $115.7 million reported at June 30, 2005 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated.

(Amounts in thousands)

Changes in the claims liability amount in fiscal years 2004 and 2005 were:

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-end
2003-04	$93,802	$45,128	($37,221)	$101,709
2004-05	$101,709	$44,309	($30,304)	$115,714

NOTE 11 – LONG TERM DEBT

Primary Government

The following is a summary of long-term liability transactions for the year ended June 30, 2005:

Governmental Activities	Balance July 1, 2004	Additions	Reductions	Ending Balance June 30, 2005	Due Within One Year
Certificates of Participation, net	$ 225,523	$ 2,565	$ 15,384	$ 212,704	$ 12,545
Revenue Bonds, net	437,820	17,199	15,480	439,539	18,200
Other Bonds and Notes	484,755		346	484,409	2,592
Compensated Absences	100,135	71,641	67,254	104,522	69,447
Capital Lease Obligation	5,517	796	1,856	4,457	1,172
Estimated Liability for Litigation and Self -Insured Claims	101,709	44,309	30,304	115,714	36,826
Other Long-Term Liabilities	26,553	4,097	750	29,900	809
Total Governmental Activities - Long-term Liabiliites	$ 1,382,012	$ 140,607	$ 131,374	$ 1,391,245	$ 141,591
Business-type Activities					
Certificates of Participation, net	$ 670,652	$ 2,454	$ 27,960	$ 645,146	$ 29,500
General Obligation Bonds	2,321	4	280	2,045	165
Notes	3,836	797	198	4,435	305
Compensated Absences	7,255	7,769	7,088	7,936	5,860
Capital Lease Obligation	1,659		354	1,305	366
Estimated Liability for Closure/ Postclosure Care Costs	122,420		8,716	113,704	16,386
Total Business-type Activities - Long-term Liabilities	$ 808,143	$ 11,024	$ 44,596	$ 774,571	$ 52,582

Other Long-Term Liabilities include $15,785 relating to construction of the San Sevaine Creek Water Project; $3,954 for the Day Creek Project; $6,165 relating to the San Timoteo Creek Project; $2,247 relating to the Lenwood/High Desert Estates Sewer Construction Project; $940 relating to RDA project area formation and redevelopment plan adoption; and, $809 of loans from special districts.

At June 30, 2005 the $15,785 is owed to the United States Department of the Interior, Bureau of Reclamation, for construction of the San Sevaine Creek Water Project, and the $6,165 is owed to the United States Army Corp of Engineers ($6,000) and the City of Loma Linda Redevelopment Agency ($165) for the construction of the San Timoteo Creek Project. The $2,247 for the septic to sewer conversion is due to US Bank. Amounts owed to the Bureau of Reclamation are determined annually until the project is completed (approximately 8 years) based on costs incurred but not exceeding $20 million. After the project completion, the County has 15 years to pay back the liability along with 7% interest. The loan payable to the United States Army Corp of Engineers will be paid back over 15 years after the completion of the project and interest will be charged at the federal prime rate in effect upon the completion of the project. The loan payable of $165 to the City of Loma Linda Redevelopment Agency is non-interest bearing and will be paid back over the next 2 years.

In October 1986, the Flood Control District entered into a loan agreement with the Federal Government for construction of the Day Creek Project for $13,400. A subsequent agreement between the County (on behalf of the District) and the City of Rancho Cucamonga Redevelopment Agency provides the terms and conditions for repayment of the loan. Payments are reflected in the Flood Control District as other revenue (from the City of Rancho Cucamonga) and debt service-principal (to the Bureau of Reclamation). This agreement is to be in force approximately 24 years or until the project is complete and the federal loan is repaid. Payments commenced in 1992 and the remaining balance of the loan as of June 30, 2005, is $3,954.

COUNTY OF SAN BERNARDINO
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2005
(Amounts in thousands)

A summary of bonds and notes payable recorded in the governmental activities and payable from Debt Service Funds is as follows:

Certificates of Participation	Interest Rates (%)	Issue Date	Maturity Date	Original Issue Amount	Outstanding as of 6-30-05
Capital Improvement Refinancing (1996)	Variable	06-21-96	11-01-25	$ 9,200	$ 8,000
County Center Refinancing (1996)	Variable	07-11-96	07-01-15	39,600	27,500
Public Improvement Project (1997)	3.85 to 5.00	10-01-97	10-01-25	17,790	14,200
West Valley Detention Center (2001 A)	4.00 to 4.60	10-25-01	11-01-18	8,365	8,365
West Valley Detention Center (2001 B)	3.50 to 4.00	10-25-01	11-01-12	42,075	39,155
Justice Center/Airport Improvement	3.00 to 5.00	03-01-02	07-01-16	68,100	60,190
West Valley Detention Center (2002 A)	4.50 to 5.25	08-6-02	11-01-18	44,480	44,005
Glen Helen Blockbuster (2003 A)	Variable	05-1-03	03-01-24	9,825	9,175
Glen Helen Blockbuster (2003 B)	Variable	05-1-03	03-01-24	9,875	5,525
					216,115
Deferred Amount on Refunding:					
West Valley Detention Center (2001 B)					(4,063)
Justice Center/Airport Improvement					(2,011)
West Valley Detention Center (2002 A)					(1,256)
Premium(Discounts):					
West Valley Detention Center (2001 B)					1,143
Justice Center/Airport Improvement					1,333
West Valley Detention Center (2002 A)					1,443
Net Certificates of Participation					212,704
Revenue Bonds					
Pension Obligation (1995)	5.68 to 7.72	11-22-95	08-01-21	386,266	772,835
(Discounts)					(333,296)
Net Revenue Bonds					439,539
Other Bonds and Notes					
San Sevaine Redevelopment Bonds	5.30 to 6.85	03-01-00	09-01-29	19,770	18,665
County Library	3.41	07-18-01	02-01-31	1,982	1,849
Pension Obligation Bonds (2004)		06-24-04	08-01-23	463,895	463,895
Subtotal					484,409
Total Bonds And Notes Payable, Governmental Activities					$ 1,136,652

(Amounts in thousands)

A summary of bonds and notes payable recorded in the business-type activities is as follows:

Medical Center	Interest Rates (%)	Issue Date	Maturity Date	Original Issue Amount	Outstanding as of 6-30-05
Certificates of Participation:					
Medical Center Project (Series 1994)	4.60 to 7.00	02-01-94	08-01-28	$ 283,245	$ 190,875
Medical Center Project (Series 1995)	4.80 to 7.00	06-01-95	08-01-22	363,265	123,035
Medical Center Project (Series 1996)	5.00 to 5.25	01-01-96	08-01-28	65,070	65,070
Medical Center Project (Series 1997)	4.30 to 5.50	09-01-97	08-01-08	121,095	60,820
Medical Center Project (Series 1998)	4.1895	10-22-98	08-01-26	176,510	176,510
					616,310
Less:					
Deferred Amount on Refunding					(39,659)
Discounts					(13,491)
Subtotal					563,160
Waste Systems Division					
Certificates of Participation					
Solid Waste Financing (Series 2003 B)	Variable	05-01-03	03-01-17	93,875	84,325
Less:					
Deferred Amount on Refunding					(2,339)
Subtotal					81,986
Net Certificates of Participation					645,146
County Service Areas					
General Obligation Bonds:					
Spring Valley Lake Sewer Facilities:					
Series A	6.50 to 6.75	02-15-72	02-15-02	1,300	15
Series B	6.10 to 6.15	04-01-74	04-01-04	1,000	20
Helendale Sewer Facilities:					
Series A	5.00	06-01-78	06-01-98	1,550	5
Helendale Water Facilities:					
Series B	7.00	09-01-82	06-01-97	1,450	5
Pinon Hills Water Distribution:					
Series A	5.00	03-01-78	03-01-18	1,708	940
Series B	5.00	03-01-78	03-01-18	275	130
Series C	9.00 to 11.00	11-01-84	03-01-05	1,518	5
Landers Water Distribution System	5.00	06-01-79	06-01-19	1,540	920
Oak Hills Water Distribution Facilities	7.00	09-01-74	09-01-94	750	5
General Obligation Bonds					2,045
Notes Payable:					
Hacienda Water Facilities (Note)	5.00	07-14-67	07-14-07	114	13
Crestline Sanitation District (Loan)		01-01-97	03-01-18	2,160	1,248
Morongo Valley Water Facilities (Loan)		08-17-99	08-17-04	80	51
Pinon Hills Water (Loan)		12-17-02	12-17-32	2,765	2,557
Oak Hills Water (Loan)		11-25-03	08-25-33	331	331
Helendale Water (Loan)				235	235
Notes Payable					4,435
Total Business-type Activities					$ 651,626

County Service Area 70, Improvement Zone L (CSA 70L) and the California Infrastructure and Economic Development Bank (CIEDB) entered into an agreement dated December 17, 2002 for the funding of a water tank project. Under the terms of the agreement, the project construction must begin no later than twelve months after May 28, 2002 and invoices must be to CIEDB for the entire amount of the project fund of $4,001 no later than thirty-five months after December 17, 2002. As of June 30, 2005, a total of $2,675 was approved and received from CIEDB.

General Obligation Bonds are issued to provide funds for the acquisition and construction of major capital facilities. These bonds are backed by the full faith and credit of the County and revenue for the retirement of such bonds is provided by ad valorem taxes on property within the jurisdiction of the governmental unit issuing the bonds.

Certificates of Participation (COP) are secured by annual lease payments payable by the County for use of the facilities constructed or acquired from the COP proceeds. The County has created nonprofit organizations and joint powers authorities to issue the Certificates. The County leases various projects from the authorities. The lease payments are used by the authorities to pay interest on, and principal of, the COPs.

The Certificates of Participation contain certain bond covenants, which are deemed by the County to be duties imposed by law. The County must include the applicable lease-purchase payments due each year in its annual budget and make the necessary appropriations. The County is also covenanted to maintain certain levels of liability, property damage, casualty, rental interruption and earthquake insurance in connection with each lease-purchase agreement. The County is in compliance with all significant financial restrictions and requirements as set forth in its various debt covenants.

In prior years, the County has defeased certain Certificates of Participation by placing the proceeds of new certificates in an irrevocable trust to provide for all future debt service payments on the old certificates. Accordingly, the trust account assets and the liability for the defeased certificates are not included in the County's basis financial statements. At June 30, 2005, approximately $276,770 of outstanding debt is considered defeased.

One of the joint powers authorities issued revenue bonds in November 1995 for the purpose of enabling the County to finance outstanding pension indebtedness. The net outstanding balance of the revenue bonds at June 30, 2005 is $439,539.

The County’s Board of Supervisors adopted a resolution to authorize the issuance of the County of San Bernardino pension obligation debenture in order to finance the County’s share of the unfunded accrued actuarial liability of the S.B.C.E.R.A. On June 24, 2004, the County issued its County of San Bernardino Pension Obligation Bonds, Series 2004 A (Fixed Rate Bonds), its County of San Bernardino Pension Obligation Bonds, Series 2004 B (Auction Rate Bonds), and its County of San Bernardino Pension Obligation Bonds, Series 2004 C (Index Bonds) in a respective aggregate principal amounts of $189,070, $149,825, and $125,000.

The Bonds have various maturity dates ranging from: 2005 to 2018 for Fixed Rate bonds; 2004 to 2023 for Auction Rate Bonds; 2004 to 2023 for Index Bonds. Series 2004 A Fixed Rate Bonds has fixed interest rates that range from 2.43% to 5.86%. Series 2004 B-1 Action Rate Bonds have variable rates that reset daily via auction. Series 2004B-2 and 2004 B-b Auction Rate Bonds have variable rates that that reset every 28 days via auction.

(Amounts in thousands)

The following is a schedule of principal debt service requirements to maturity as of June 30, 2005 for bonds and notes payable in the governmental activities:

Years Ending June 30	Certificates of Participation	Revenue Bonds	Other Long-Term Debt	Total
2006	$ 12,545	$ 18,200	$ 2,592	$ 33,337
2007	12,945	21,200	2,119	36,264
2008	13,530	24,510	3,755	41,795
2009	13,855	28,155	5,587	47,597
2010	14,440	32,180	7,528	54,148
2011-2015	79,430	220,975	74,572	374,977
2016-2020	56,880	291,970	168,641	517,491
2021-2025	11,175	135,645	212,518	359,338
2026-2030	1,315		6,995	8,310
2031-2035			102	102
Total Principal	216,115	772,835	484,409	1,473,359
Plus Premium	3,919			3,919
Less:				
Deferred Amount on Refunding	(7,330)			(7,330)
Discount		(333,296)		(333,296)
Total Bonds and Notes Payable	$ 212,704	$ 439,539	$ 484,409	$ 1,136,652

The following is a schedule of interest expense requirements to maturity as of June 30, 2005 for bonds and notes payable in the governmental activities:

Years Ending June 30	Certificates of Participation	Revenue Bonds	Other Long-Term Debt	Total
2006	$ 8,465	$ 13,377	$ 26,406	$ 48,248
2007	7,960	12,053	26,297	46,310
2008	7,503	10,504	26,302	44,309
2009	7,051	8,702	25,994	41,747
2010	6,545	6,619	25,692	38,856
2011-2015	23,832	5,694	119,380	148,906
2016-2020	7,173		86,743	93,916
2021-2025	1,197		25,813	27,010
2026-2010	26		1,515	1,541
2031-2035			3	3
Total Interest	$ 69,752	$ 56,949	$ 364,145	$ 490,846

(Amounts in thousands)

The following is a schedule of principal debt service requirements to maturity as of June 30, 2005 for bonds and notes payable in the business-type activities:

Years Ending June 30	Certificates of Participation	General Obligation Bonds	Notes Payable	Total
2006	$ 29,500	$ 165	$ 305	$ 29,970
2007	31,185	115	262	31,562
2008	32,930	120	262	33,312
2009	35,845	125	270	36,240
2010	20,985	130	277	21,392
2011-2015	124,805	755	2,746	128,306
2016-2020	131,145	635	313	132,093
2021-2025	147,270			147,270
2026-2030	146,970			146,970
2031-2035				0
Total Principal	700,635	2,045	4,435	707,115
Less:				
Deferred Amount on Refunding	(41,998)			(41,998)
Discount	(13,491)			(13,491)
Total Bonds and Notes Payable	$ 645,146	$ 2,045	$ 4,435	$ 651,626

The following is a schedule of interest expense requirements to maturity as of June 30, 2005 for bonds and notes payable in the business-type activities:

Years Ending June 30	Certificates of Participation	General Obligation Bonds	Notes Payable	Total
2006	$ 33,793	$ 100	$ 22	$ 33,915
2007	32,234	94	20	32,348
2008	30,600	88	19	30,707
2009	28,827	82	17	28,926
2010	27,304	76	15	27,395
2011-2015	119,217	275	52	119,544
2016-2020	88,206	74	11	88,291
2021-2025	53,879			53,879
2026-2020	14,697			14,697
2031-2035				0
Total Interest	$ 428,757	$ 789	$ 156	$ 429,702

(Amounts in thousands)

Non-Obligation Debt

The County issues Single Family Mortgage Revenue Bonds to provide funds to purchase mortgage loans secured by first trust deeds on newly constructed and existing single-family residences. Additionally, the County issues Multi-Family Mortgage Revenue Bonds to finance the construction of multi-family apartment projects in the County. These programs assist persons and families of low and moderate income within the County to afford the costs of decent, safe and sanitary housing. The bonds will be payable solely from and secured by a pledge of payment received on the acquired mortgage loans, certain insurance with respect thereto, and other monies pledged under the bond resolution. The bonds do not represent a liability of the County and, as such, do not appear in the accompanying basic financial statements.

The County acts as an agent for the property owners benefited by the projects financed from special assessment bond proceeds, in collecting the assessments, forwarding the collections to bondholders and initiating foreclosure proceedings, if appropriate. Special assessment bonds of $3,245 at June 30, 2005 do not represent a liability of the County and, as such, do not appear in the accompanying basic financial statements.

Discretely Presented Component Units

Long-term liability transactions for the FIRST 5 of San Bernardino for the year ended June 30, 2005, was as follows:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Due Within One Year
Compensated Absences	$ 124	$ 81	$ 159	$ 46	$ 11

NOTE 12 – INTEREST RATE SWAP

(a) Medical Center Series 1998 A Certificates of Participation

Objective of the Interest Rate Swap. As a means to lower financing costs, and to reduce the risks to the County associated with the fluctuation in market interest rates, the County entered into an interest rate swap in connection with the Medical Center Series 1998A Certificates of Participation (COP) in the amount of $176,510. The intention of the swap was to effectively change the variable interest rate on the bonds to a synthetic fixed-rate of 4.1895 percent.

Terms. The COPs and the related swap agreement mature on August 1, 2026, and the swap's notional amount of $176,510 matches the $176,510 variable-rate COPs. The swap was effective at the same time the COPs were issued on October 22, 1998. Starting in fiscal year 2008-09, the notional value of the swap and the principal amount of the associate debt will decline. Under the swap agreement, through August 1, 2005, the County pays Merrill Lynch a fixed rate of 4.1895 percent and Merrill Lynch pays the County an amount equal to the variable rate interest payable on the outstanding COPs. After August 1, 2005 the County pays Merrill Lynch Capital Services (MLCS), Inc. a fixed payment of 4.1895 percent and receives from

(Amounts in thousands)

Merrill Lynch a variable payment computed as 73 percent of the monthly London Interbank Offered Rate (LIBOR). Conversely, the COPs variable-rate coupons have historically been similar to the Bond Market Association Municipal Swap Index (BMA).

Fair Value. Because interest rates have declined since execution of the swap, the swap had a negative fair value of $16,421 as of June 30, 2005. The swap's negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating a lower synthetic interest rate. Because the coupons on the Medical Center variable-rate COPs adjust to changing interest rates, the COPs do not have a corresponding fair value decrease. The fair value was the quoted market price from Merrill Lynch & Co. at June 30, 2005.

Credit Risk. The swap counterparty was rated Aa3 by Moody's and A+ by Standard & Poor as of June 30, 2005. The swap agreement specifies that if the long-term senior unsecured debt rating of Merrill Lynch & Co. is withdrawn, suspended or falls below A- (Standard & Poor) or A3 (Moody's), a collateral agreement will be executed within 30 days or the swap agreement will terminate.

Basis Risk. The swap exposes the County to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the COPs. If a change occurs that results in the rates moving to convergence, the expected cost savings may not be realized. As of June 30, 2005, the BMA rate was 2.28 percent, the actual variable interest rate was 2.10 percent and 73 percent of LIBOR was 2.44 percent.

Termination Risk. The County or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap may be terminated by the County if MLCS credit quality rating falls below A- as issued by Standard & Poor or A3 by Moody's. If the swap is terminated, the variable-rate COP would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the County would be liable to the MLCS for a payment equal to the swap's fair value.

Swap payments and associated debt. Using rates as of June 30, 2005, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rate remain the same for their term, were as follows. As rates vary, variable-rate COP interest payments and net swap payments will vary.

	Variable-Rate Bonds		Interest Rate	
Fiscal Year	Principal	Interest	Swaps, Net	Total
2005/06	$ -	$ 3,707	$ 3,091	$ 6,798
2006/07	-	3,707	3,091	6,798
2007/08	-	3,707	3,091	6,798
2008/09	1,000	3,696	3,083	7,779
2009/10	1,100	3,674	3,064	7,838
2010/2027	174,410	36,350	30,315	241,075
	$ 176,510	$ 54,841	$ 45,735	$ 277,086

(b) Pension Obligation Series 2004 C Bonds

Objective of the interest rate swap. As a means to lower financing costs, and to reduce the risks to the County associated with the fluctuation in market interest rates, the County entered into an interest rate swap in connection with the Pension Obligation Series 2004 C Bonds (POB) in the amount of $125,000. The intention of the swap was to effectively change the variable interest rate on the bonds to a synthetic fixed-rate of 6.3820 percent.

Terms. The POBs and the related swap agreement mature on August 1, 2023, and the swap's notional amount of $125,000 matches the $125,000 variable-rate POBs. The swap was effective at the same time the POBs were issued on June 24, 2004. Starting in fiscal year 2019-20 the notional value of the swap and the principal amount of the associated debt decline by $25,000 per year until the debt is completely retired. Under the swap agreement, the County pays Goldman Sachs Mitsui Marine Derivative Products (GSMMDP) L.P. a fixed rate of 6.3820 percent and GSMMDP pays the County a variable rate computed as the monthly London Interbank Offered Rate (LIBOR), plus a LIBOR margin equal to 23 basis points (.23%)

Fair Value. As of June 30, 2005, the swap had a negative fair value of $13,867. The swap's negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating a lower synthetic interest rate. Because the coupons on the variable-rate POBs adjust to changing interest rates, the POBs do not have a corresponding fair value decrease. The fair value was the quoted market price from GSMMDP at June 30, 2005.

Credit Risk. As of June 30, 2005, the County was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the County would be exposed to credit risk in the amount of the swap's fair value. The swap counterparty was rated Aaa by Moody's and AA+ by Standard & Poor as of June 30, 2005. To mitigate the potential for credit risk, if the long-term senior unsecured debt rating of GSMMDP is withdrawn, suspended or falls below A (Standard & Poor) or A2 (Moody's), the fair value of the swap will be fully collateralized by the counterparty with U.S. Government securities. Collateral would be posted with a third-party custodian.

Termination Risk. The County or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap may be terminated by the County if GSMMDP credit quality rating falls below A as issued by Standard & Poor or A2 by Moody's. If the swap is terminated, the variable-rate POB would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the County would be liable to the GSMMDP for a payment equal to the swap's fair value.

(Amounts in thousands)

Swap payments and associated debt. Using rates as of June 30, 2005, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rate remain the same for their term, were as follows. As rates vary, variable-rate POB interest payments and net swap payments will vary.

	Variable-Rate Bonds		Interest Rate	
Fiscal Year	Principal	Interest	Swaps, Net	Total
2005/06	-	4,463	3,515	7,978
2006/07	-	4,463	3,515	7,978
2007/08	-	4,463	3,515	7,978
2008/09	-	4,463	3,515	7,978
2009-2027	125,000	55,781	43,938	224,719
	$ 125,000	$ 73,633	$ 57,998	$ 256,631

NOTE 13 – LEASES

Capital Leases

The County has entered into certain capital lease agreements under which the related equipment will become the property of the County when all terms of the lease agreements are met.

Equipment and related accumulated amortization under capital lease are as follows:

	Governmental Activities	Business-type Activities
Asset:		
Equipment	$ 8,041	$ 1,860
Less: Accumulated depreciation	3,568	558
Total	$ 4,473	$ 1,302

(Amounts in thousands)

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2005, were as follows:

Year Ending June 30:	Governmental Activities	Business-type Activities
2006	$ 1,394	$ 406
2007	1,375	406
2008	1,146	405
2009	652	169
2010	217	-
2011-2015	33	-
Total Minimum Lease Payments	4,817	1,386
Less: Amount Representing Interest	360	81
Present Value of Minimum Lease Payments	$ 4,457	$ 1,305

Operating Leases

The following is a schedule by years of future minimum rental payments, principally for the General Fund, required under operating leases entered into by the County that have initial or remaining non-cancelable lease term in excess of one year as of June 30, 2005:

Year Ending June 30,	
2006	$ 28,644
2007	22,956
2008	19,091
2009	13,469
2010	9,271
2011-2019	16,392
Total Minimum Payments	$ 109,823

The County incurred rental expenditures of $31,015, principally in the General Fund, for the year ending June 30, 2005.

(Amounts in thousands)

NOTE 14 – COLLATERIZED FACILITIES

The following County Facilities have been pledged as collateral in certain County financing transactions:

Facilities	Beginning	Additions	Deletions	Ending
Foothill Law and Justice	$ 42,642	$ -	$ -	$ 42,642
Victorville Law Center	8,644			8,644
West Valley Detention Center	146,327			146,327
Courthouse & Annex	9,450			9,450
Mid-Valley Landfill	59,260			59,260
West Valley Juvenile Detention Center	5,077			5,077
Information Services Bldg	500			500
Central Jail	10,819			10,819
Offices and Bindery	4,247			4,247
Vehicle Services Garage	3,469			3,469
Coroner's Office	1,212			1,212
Fontana Government Center	566			566
Fontana Government Center	2,274			2,274
Arrowhead Regional Medical Center	490,481			490,481
Hall of Records (New)	12,666			12,666
Hall of Records (Old)	2,054			2,054
Glen Helen Pavilion Ampitheather	26,174			26,174
Civic Center	5,117			5,117
Sheriff's Admin Bldg	13,416			13,416
County Gov Center	25,711			25,711
	$ 870,106	$ -	$ -	$ 870,106

NOTE 15 – MEDICARE AND MEDI-CAL PROGRAMS

The Medical Center provides services to eligible patients under Medi-Cal and Medicare programs. For the years ended June 30, 2005 and 2004, the Medi-Cal program represented 47% and 46%, and the Medicare program represented approximately 10% and 11%, respectively, of the Medical Center's net patient service revenues. Medi-Cal inpatient services are reimbursed at contractually agreed-upon per diem rates and outpatient services are reimbursed under a schedule of maximum allowances. Medicare inpatient services are reimbursed based upon pre-established rates for diagnostic-related groups. Outpatient services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost-reimbursement methodology. Final reimbursement is determined as a result of audits by the intermediary of annual cost reports submitted by the Medical Center. Reports on the results of such audits have been received through June 30, 2001 for Medicare and June 30, 2002 for Medi-Cal. Adjustments as a result of such audits are recorded in the year the amount can be determined.

(Amounts in thousands)

NOTE 16 – CLOSURE AND POSTCLOSURE CARE COST

State Financial Assurance Mechanism regulations require landfill operators to set aside funds, or provide alternative funding mechanisms, to fund the closure and postclosure maintenance of landfills. The funding must be completed prior to the final date of closure. These regulations apply only to those landfills operating prior to 1989. The closure and postclosure care costs of other landfills not subject to these State regulations are funded separately in the Site Closure and Maintenance Fund.

Closure and postclosure care costs include, but are not limited to, such items as final cover, groundwater monitoring, well installations and landfill gas monitoring systems.

The twenty (20) landfills listed below (with their capacity used and estimated remaining lives) are those currently subject to the State regulations:

LANDFILL	**Capacity Used**	***YEARS* Remaining**	***LANDFILL***	**Capacity Used**	***YEARS* Remaining**
Apple Valley	33%	Inactive	Milliken	92%	Inactive
Baker	6%	Inactive	Morongo Valley	81%	Inactive
Barstow	62%	4	Needles	100%	Inactive
Big Bear	100%	Inactive	Newberry Springs	100%	Inactive
Colton	82%	2	Phelan	60%	Inactive
Hesperia	55%	Inactive	San Timoteo	61%	4
Landers	35%	14	Trona-Argus	18%	Inactive
Lenwood-Hinkley	6%	Inactive	Twentynine Palms	14%	Inactive
Lucerne Valley	100%	Inactive	Victorville	63%	3
Mid-Valley	72%	2	Yermo	70%	Inactive

The landfill closure and postclosure care cost estimates of $115,561 and $94,610, respectively, are based upon the most recently submitted Closure/Postclosure Maintenance Plan documents filed with the State and Federal permitting agencies. If, at some future date, these closure cost estimates are adjusted (due to changes in inflation, technology, regulations, etc.), the County is required to make corresponding changes in the amount of funds deposited for closure.

Each year a portion of each landfill's estimated closure and postclosure cost is recognized as an expense and liability based upon the amount of capacity used during the year. The Mid-Valley landfill Unit 3 Phase 3 and 4 liner construction project increased capacity by 2,023 tons due to expansion. This reduced the Mid-Valley capacity used from 85% to 72%.

As of June 30, 2005, the cumulative liability recorded by the County based upon individual landfill capacity usage was $173,153. The remaining $37,018 of estimated closure and postclosure costs will be recorded and funded as landfill capacity is used. Closure and postclosure related expenditures of $59,449 have been paid which reduced the landfill closure and postclosure liability to $113,704 at June 30, 2005.

Current State regulations allow public agencies to demonstrate financial assurance for postclosure maintenance costs through a “pledge of revenue” mechanism. This mechanism allows agencies to pledge a reliable future revenue source to fund the required postclosure maintenance at each landfill site for thirty years after landfill closure. The County has pledged a portion of its future tipping fees and investment earnings from the Waste Systems Division enterprise funds to fund these costs.

NOTE 17 – RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2005.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.37% - 12.28% for general members and 10.23% - 14.24% for safety members, of their annual covered salary of which the County pays approximately 7%. County of San Bernardino employer contribution rates are as follow: County General 8.44%, County safety 18.01%. All employers combined are required to contribute 14.01% of the current year covered payroll. For 2005, the County's annual pension cost of $141,450 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The County's annual pension cost and prepaid asset, computed in accordance with GASB 27, Accounting for Pensions by State and Local Governmental Employers, for the year ended June 30, 2005, were as follows:

(Amounts in thousands)

Annual Required Contribution (County fiscal year basis)	$	141,450
Interest On Pension Assets		(34,779)
Adjustment To The Annual Required Contribution		38,135
Annual Pension Cost		144,806
Annual Contributions Made		141,450
Increase/(Decrease) in Pension Assets		(3,356)
Pension Asset, Beginning of Year		848,238
Pension Asset, End of Year	$	844,882

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

	Annual Contributions Made		
Year Ended June 30,	SBCERA	County	Percentage Contributed
2003	$ 68,361	$ 59,673	100%
2004	652,325	540,106	100%
2005	161,906	141,450	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of $420,527. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was $386,266. The current amount outstanding at June 30, 2005 is $439,539 (see Note 11).

On June 24, 2004, the County issued its County of San Bernardino Pension Obligation Bonds, Series 2004 A (Fixed Rate Bonds), its County of San Bernardino Pension Obligation Bonds, Series 2004 B (Auction Rate Bonds), and its County of San Bernardino Pension Obligation Bonds, Series 2004 C (Index Bonds) in a respective aggregate principal amounts of $189,070, $149,825, and $125,000. The Bonds were issued to finance the County's share of the unfunded accrued actuarial liability of the S.B.C.E.R.A. The current amount outstanding at June 30, 2005 is $463,895.

NOTE 18 – LEASE/LEASEBACK

In May 1997, the County entered into a lease agreement whereby seven separate County facilities, valued at a total of approximately $146 million, were leased to a financing institution. The County simultaneously entered into a sublease agreement to lease the buildings back, and received a prepayment of $96.2 million from the financing institution, as the investor parent. The County then deposited $87.6 million with the defeasance bank. After transaction expenses of $1 million, the net benefit to the County was $7.6 million. The deposit amount provides payments equal to the County's obligation under the sublease and purchase option. As a result, obligations under this lease/leaseback arrangement are considered to be economically, although not legally defeased. Therefore, the trust assets and the related debt have been excluded from the County's financial statements.

The term of the full lease with the financing institution ends in 2034. However, the term of the agreement with the defeasance bank ends in 2014, at which time the County may either exercise the early purchase option or renegotiate the agreement to the end of the full lease term. The decision will then be based on the prevailing interest rates at the time.

NOTE 19 – COMMITMENTS AND CONTINGENCIES

(a) The County has been named as a defendant in numerous lawsuits and claims arising in the normal course of operations. In the aggregate, these claims seek monetary damages in significant amounts. To the extent the outcome of such litigation has been determined to result in probable loss to the County; such loss has been accrued in the accompanying basic financial statements. In the opinion of County management and County Counsel, the ultimate outcome of the remaining claims cannot be determined at this time.

(b) The County recognizes as revenue, grant monies received as reimbursement for costs incurred in certain Federal and State programs it administers. Although the County's grant programs are being audited through June 30, 2005 in accordance with the provisions of the Single Audit Act of 1996, these programs are still subject to financial and compliance audits and resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

(c) During fiscal year 2002, the State of California's error rate for the food-stamp program exceeded the tolerance thresholds established by the Federal Government. As a result, the State has been sanctioned for amounts in excess of $177,000 pertaining to the Federal non-compliance. The State is attempting to pass-through sanctions to the County in excess of $7,300.

(d) Beginning in 2002 the SWMD commenced an aggressive investigation of perchlorate impacts to soil and groundwater in the vicinity of the Mid Valley Sanitary Landfill (MVSL). The work consisted of installing over twenty temporary wells, seven permanent groundwater-monitoring wells, and the collection of soil and groundwater samples for analysis and groundwater modeling. This work was summarized in a report dated

October 7, 2002, and was submitted to the Regional Water Quality Control Board (RWQCB) for their review.

On September 26, 2002, the RWQCB issued a directive to the SWMD to submit a Work Plan and conduct additional perchlorate investigations in the vicinity of the MVSL. The directive required the SWMD to submit the Work Plan by October 26, 2002. The SWMD requested and was granted an extension to the submittal deadline from October 26, 2002 to November 15, 2002. On November 15, 2002, SWMD prepared and submitted to the RWQCB a work plan for additional soil and groundwater investigation of perchlorate in the vicinity of the MVSL. Subsequently, the RWQCB adopted and issued Cleanup and Abatement Order (CAO) No.R8-2003-0013 to the County. The RWQCB approved SWMDs work plan on January 30, 2003.

In accordance with Item 2 of CAO No.R8-2003-0013, the RWQCB directed the County to submit a work plan for the installation of at least five (5) additional monitoring wells at the leading edge of the plume and along the easterly boundary of the plume. In addition, the RWQCB also directed the County to submit a work plan to develop a conceptual remedial action plan. The SWMD submitted the work plans to the RWQCB on February 17, 2004 and February 26, 2004. Per their letter dated March 25, 2004, the RWQCB approved the work plans as submitted.

The drilling program within the RWQCB-approved work plan consists of installing six permanent and up to thirty, temporary, groundwater monitoring wells; collecting groundwater samples; setting pumps within three installed wells for use in hydraulic aquifer testing; containing well development water; and securing all necessary permits. Installation of the monitoring wells commenced on May 1, 2004 and was completed by the end of August 2004.

Cleanup and Abatement Order No.R8-2003-0013 was amended on September 17, 2004 that states that the County shall take all actions necessary to provide replacement water that is non-detectable for perchlorate to the City of Rialto by April 1, 2005, to replace the water currently extracted from Rialto Well No. 3.

Fiscal Year 2002/2003 unbudgeted costs totaling $1,816 were expended for the perchlorate investigation. FY 2003/2004 expenditures totaled $1,664. For FY 2004/2005 expenditures were $4,193. Solid Waste has an agreement with the San Bernardino Water Company to provide the necessary water when needed.

(e) The County has entered into several contractual agreements for the construction and/or improvement of several capital projects. These commitments include $7,994 for various projects of the Capital Improvements Fund.

(f) Colonies partners L.P. filed an inverse condemnation action against the San Bernardino County Flood Control District. The action seeks damages for the loss of residential development property due to increasing the size of a flood basin in order to accommodate storm water runoff. The parties are scheduled for a mandatory settlement conference. If the settlement conference is unsuccessful, the case will go to trial next year.

(g) On June 17, 2005, Sukut Construction filed a claim for damages against the San Bernardino Flood Control District (SBCFCD). The action seeks damages in connection with work Sukut performed as contractor for the Riverside Drive Strom Drain Segment 2-Phase II. The action claims Sukut encountered soil conditions that were different from that as represented by SBCFCD documents, resulting in progress delays and increased costs. The parties have agreed to stay the action and have scheduled a mediation meeting for December 12, 2005. If the matter does not settle, the case may go to trial in 2006.

(Amounts in thousands)

NOTE 20 – SHORT-TERM DEBT

In July 2004, the County issued Tax and Revenue Anticipation Notes (TRANS) totaling $145,000 which were repaid June 30, 2005. This issue followed the prior year issued TRANS of $140,000 which was repaid July 1, 2004. The proceeds of the TRANS were intended to provide financing for 2004-05 General Fund expenditures, including current expenditures, capital expenditures and the discharge of other obligations or indebtedness of the County. The TRANS were secured by a pledge of various monthly amounts of property taxes on the secured roll.

Beginning Balance July 1, 2004	Additions	Reductions	Ending Balance June 30, 2005
$ 140,000	$ 145,000	$ 285,000	$ -

NOTE 21 – SUBSEQUENT EVENTS

Tax and Revenue Anticipation Notes (TRANS)

In July 2005 the County, as a participant in the California Statewide Communities Development Authority Pool, issued $170,000 of Tax and Revenue Anticipation Notes in the form of Series A-5 Bonds due June 30, 2006. The stated interest for the A-5 Bonds is set at 4.00% per annum with a yield of 2.62%. The County also issued $40,000 of Tax and Revenue Anticipation Notes in the form of Series C-4 Taxable Bonds due June 30, 2006. The stated interest rate for the C-4 Bonds is 3.93% per annum with a yield of 3.93%. In accordance with California law, the Bonds are general obligations of the County and are payable only out of the taxes, income, revenues, cash receipts, and other monies of the County attributable to fiscal year 2005-2006 and legally available for payment thereof. Proceeds from the Bonds will be used for fiscal year 2005-06 General Fund expenditures, including current expenditures, capital expenditures, and the discharge of other obligations or indebtedness of the County.